TRANSCRIPT

LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

Inquiry into the Rental and Housing Affordability Crisis in Victoria

Melbourne – Tuesday 10 October 2023

MEMBERS

Trung Luu – Chair
Ryan Batchelor – Deputy Chair
Matthew Bach
Michael Galea
Joe McCracken
Rachel Payne
Aiv Puglielli
Lee Tarlamis

PARTICIPATING MEMBERS

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John Berger
Moira Deeming
David Ettershank
Renee Heath
Wendy Lovell
Sarah Mansfield

WITNESSES

Xavier Rimmer, Acting Parliamentary Budget Officer, and

Ross Hutchings, Acting Director of Policy Analysis and Advice, Parliamentary Budget Office.

The CHAIR: Welcome to the sixth session of today's hearing. Joining us today is the Parliamentary Budget Office's Mr Xavier Rimmer and Mr Ross Hutchings. Before we continue, I will introduce the witnesses to me, Trung Luu, I am the Chair. To my left is Mr Ryan Batchelor, the Deputy Chair; Mr Michael Galea; Mrs Moira Deeming: Dr Matthew Bach; Dr Sarah Mansfield, Mr Joe McCracken, Dr Renee Heath and Mr Aiv Puglielli.

Just before we continue, I would just like to inform you that all evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council's standing orders. Therefore the information you provide during this hearing is protected by law. You are protected against any actions for what you are about to say during this hearing, but if you go elsewhere and repeat the same thing, those comments may not be protected by this privilege. Any deliberate false evidence or misleading to the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided a proof version of the transcript following the hearing. The transcript will ultimately be made public and posted on the committee website. For the Hansard record, can you please state your full name and organisation you are with.

Xavier RIMMER: Xavier Rimmer. I am the Acting Parliamentary Budget Officer with the Parliamentary Budget Office.

Ross HUTCHINGS: Ross Hutchings, Acting Director of Policy Analysis and Advice, also Parliamentary Budget Office.

The CHAIR: Thank you. We will give you a quick minute to give a brief summary.

Xavier RIMMER: Sure. I guess I will just give a quick introduction of the office and the submission that we made. We are an independent office of Parliament. We do not work for the government or for any other vested interest necessarily. We provide services to all members of Parliament. We recently started providing services to parliamentary committees.

Our submission might be a little bit different from some of the others that you have received. We did not address the terms of reference of the inquiry; rather, we sought to provide longer term historical trend information to allow a greater understanding and context about the housing sector in Victoria. We had three focus areas that we went through, one of which was housing tenure, looking at the changing trends in the types of ownership or housing arrangements that people have. We observed that there has been something of a move away from home ownership towards rentals, particularly notable in low-income areas and particularly notable in the metropolitan areas. We also looked at housing costs, the kinds of costs that houses face and what has happened over time, and nominally we have seen that they have risen. And we spent a fair bit of time focusing on housing affordability, looking at those costs that households face relative to incomes and seeing that housing costs have generally outpaced incomes, inflation and wages and people are therefore spending more on households than they have before. This is acutely felt amongst renters and acutely felt, even amongst that group, amongst low-income renters. I am happy to take any questions.

The CHAIR: Thank you. Thanks for that. Ryan will continue with questions. Limit it to 4 minutes, please.

Ryan BATCHELOR: Thanks, Chair. Thanks very much for coming in. It is a very interesting publication. The rounded edges of your column graphs certainly do challenge user experience, but I will just park that for the moment. There is a bit in here about housing affordability and housing costs, obviously for renters and for mortgage holders. I was wondering: have you come across any data looking at mortgage default rates or consequences of people being in stress? There is data in there about people in basically mortgage stress or rental stress. Was there anything you came across looking at what the consequences of that are? If you have found anything, are you able to share it with the committee, or have you got any reflections on that that you might want to share?

Xavier RIMMER: The short answer is no, we did not. I think it is fair to say we used the time we had to prepare the submission. No, that is not something that we found a particularly strong dataset or evidence of. The observations I have in that space are probably limited in an empirical value, but conceptually speaking the arrangements for people who might exit out of home ownership because of financial stress are particular to the legal framework in which people exist in Australia. It is quite different to what we observe in other jurisdictions; notably, people bear greater liability for housing costs in Australia and have less ability to walk away from the financial entanglements that might result from housing than, for example, in the United States, where people are effectively able to forfeit a property and forfeit the burden of that property. Look, we did not spend any time looking into that topic.

Ryan BATCHELOR: That is fine. The other area was largely prompted by a briefing that we had recently in the Parliament by some people running the mortgage stress at Westjustice community legal centre. I was talking to them about the impact that the different rates of capital growth are having – potentially some people buying into property and experiencing sort of either stagnant or negative capital growth – on the impact of mortgage stress. Again, I will put you on the spot, but have you come across anything in the literature or a survey about the different speeds of the housing market in terms of capital growth and the impact that that might be having on individuals?

Xavier RIMMER: Look, not data per se, but in the literature it is certainly true that it is fairly well established that freestanding homes face a lower tenure time between purchase and effectively a value-for-money prospect. By selling a property after I think the last literature I saw on this was about seven years, you can overcome the costs of interest that you have paid on that loan to become in a positive capital position. It is something in the region of 10 to 12 years on less freestanding types, particularly in the high-rise apartment sector. That is pretty volatile, though. I would imagine that calculation over the last four years or so would have changed pretty significantly in quite a volatile way as vacancy rates in rental accommodation, particularly apartments through COVID restriction eras, went right up. I guess the thing to say is there is probably quite strong evidence to say that all capital types in the housing market are producing relatively strong returns insofar as we have now returned from the COVID era into relatively low vacancy rates amongst all rental properties and we are seeing prices growing reasonably robustly again. I probably do not have a more sophisticated answer than that.

Ryan BATCHELOR: I appreciate that. Thanks very much. Thanks, Chair.

The CHAIR: Thank you. Mr Puglielli.

Aiv PUGLIELLI: Hi. Thank you both for coming in, and from the outset I will just say thank you for providing the breadth of data that you have to this committee. I think having that much at our fingertips to inform this conversation is really crucial, so thank you for that participation. By my reading of your analysis, and correct me if I am wrong, you have noted that almost 30 per cent of renters were in housing stress in 2021, with over 30 per cent of the income being spent on rent, and that a significantly higher proportion of those were low-income households, being 56.8 per cent in 2021. Given many reports have come to this committee noting that the situation has only gotten worse since 2021, I would think that we can assume that that proportion of renters now in housing stress is probably more than a third and probably almost two-thirds being low-income households. What do you think will happen based on this data if rents continue to rise at the current rate and housing stress continues to increase?

Xavier RIMMER: That is a good question. I think to address the first part of your point first, we are probably in a situation where housing affordability has worsened since 2021. While there is limited data that is publicly available on that, that supposition is quite reasonable, I think it is fair to say. Since we have identified that, we have noted that vacancy rates have gone down again, which would put pressure on rents, and also some of the costs that feed into property ownership have gone up significantly – four percentage-point rises in interest rates amongst other things.

I do not want to say this and make us sound bad, but we are not a very socially oriented organisation; we are rather empirically driven. There are a number of outcomes that can occur and can arise when rental stressors continue to be exacerbated, being that people in those rental stress situations have to forgo other expenditures in order to be able to afford shelter when able to prioritise shelter. Some may find themselves in the circumstance where it becomes more difficult to prioritise shelter over other expenditures in their life. There is reasonably strong sociological literature and economic literature that looks at the impacts of these kinds of things on people's ability to not just maintain access to shelter but to maintain an attachment to other economic activities – so work, particularly, or for children in those situations, access to education and so forth. We have not looked in particular at the likely implications of that or the possible implications of that, but when one cost goes up the ability to bear other costs when incomes are not keeping pace with that goes down.

Aiv PUGLIELLI: Thank you. I am not sure with if this is within your purview being the Parliamentary Budget Office, but do you have any view to policy outcomes that might see these numbers come down and see this rental stress and housing stress come down?

Xavier RIMMER: This is an easy question for me to answer in some respects. I am explicitly not allowed to form policy recommendations or judge policy.

Aiv PUGLIELLI: All good. No, that is all right. I thought I would try anyway. With the remainder of my time, another thing to come out of the data that you have provided is you have noted home ownership as a tenure type, being people who own the home they live in, has decreased as a proportion of Victorian households as well as that over this period the proportion who own their property outright has declined. Meanwhile, you have noted housing prices have risen markedly in Victoria over the last two decades. Given these observations, do you think that rising house prices are forcing people out of ownership and therefore this continuing is unsustainable?

Xavier RIMMER: Rising house prices are making it harder for people to get into home ownership. It is difficult to see that rising house prices would force someone out of home ownership once they have already achieved it, but certainly it creates a larger barrier to entering into home ownership.

Aiv PUGLIELLI: A barrier to entry, okay.

Xavier RIMMER: That is supported by the data that we have seen, and that has been going on for some time. What we found was, I think, the median property price in Victoria was $390,000 two decades ago and it is $760,000-ish now. In that time incomes have not kept pace with that and people's ability to generate savings has not kept pace with that, so those rising prices certainly are presenting a larger barrier to people entering home ownership.

Aiv PUGLIELLI: Is your assessment that that is sustainable, though, that continuing rise?

Xavier RIMMER: I think that is quite a complex question. But I guess if I do some relatively simplistic analysis to say if the price of an asset is growing faster than people's ability to pay for that asset and that is maintained indefinitely, it is difficult to see how that is sustainable. The exception, though, with the housing market is to say that there are certainly housing markets internationally where home ownership rates are relatively low and people rent for a significant portion if not all of their lives. So it is hard to say whether it is actually sustainable, but it certainly makes it increasingly difficult.

Aiv PUGLIELLI: Thank you.

The CHAIR: Thank you. Mr McCracken.

Joe McCRACKEN: Thank you. I am looking at your report actually – on page 10, I think it is – and I am quite interested to look at the graph there, figure 7, which has got 'Individual Victorian taxpayers with investment in rental property'. Just by looking at the graph, it paints a clear picture. Between 1999–2000 and 2020–21 there has been at least, roughly speaking, a doubling of the people with one investment property. That would form the vast majority of those that do have an investment property, and we could say basically a quarter of that have two properties and then maybe a quarter of that or maybe a bit less have probably three or more. I am trying to get a profile of these people that have investment properties. What we have been told in the past is that they are usually mum-and-dad investors. That data would seem to confirm that.

Xavier RIMMER: First of all, that chart was probably the hardest one to put together and explain, and I will just give a quick caveat to the chart.

Joe McCRACKEN: I picked the best one, didn't I?

Xavier RIMMER: I will give a quick caveat to the chart to say that is Australian tax office tax stats data and that just suggests that that is the number of individual taxpayers who have an interest in a property. You might find that several people have an interest or two people perhaps have an interest in one property, so it is not possible to look at that chart and say, 'That tall dark-blue column – that is how many properties are owned.' That is just how many people have a stake in that many properties.

Ryan BATCHELOR: Sorry – so that could be like a couple each owning an interest in a joint.

Xavier RIMMER: Absolutely. I mean, that is probably the most likely combination, but it could be through various arrangements.

Ryan BATCHELOR: Three kids.

Xavier RIMMER: Yes, children owning a share in a property. What we can see from this data, though, is that there has probably been a growth in that that has outpaced the size of the property market, and that is reinforced by the idea that rentals are now a larger proportion of the market. You know, it is an indicator that sort of says, 'This is perhaps something of a mapping of what it looks like in terms of the shares.' But what we do know, as I say, from the increase in rentals as a share of the market is we are seeing probably a greater proportional concentration of ownership of investment properties. As to whether they are owned by mum-and-dad investors, unfortunately we do not know.

Joe McCRACKEN: It is hard to extrapolate that.

Xavier RIMMER: Yes. Look, there are datasets that exist that relate to who owns those, but those are sort of proprietary datasets that you usually have to pay for. We thought the value of this was to construct it from public data so that it is a guide for how to assess what is in the public domain.

Joe McCRACKEN: Okay. That is all I had. I was interested in that. Thank you.

The CHAIR: Thank you. Mr Galea.

Michael GALEA: Thank you, Chair. Thank you, Mr Rimmer, for your very thorough report. It certainly has been very helpful to us as a committee. I have lost the page reference, I am sorry, but you talk on one page about the change over time in renting rates and the contrast between metropolitan Melbourne and regional Victoria, which shows a much more significant jump in those rates in the metropolitan area. I notice in attachment C you have broken that down to the granular level detail of LGAs, which has been really, really good to see. I was particularly interested to see that the increase within the metropolitan area seems to be predominately focused on the middle and outer suburban LGAs, and I am wondering if there are any sort of trends or patterns that you have noticed with that that might explain why the outer and middle suburbs of Melbourne seem to have the highest increases.

Xavier RIMMER: The short answer is no. That would be a pretty labour-intensive process to go through to do. We decided to include that without analysis because we just did not have the resources to undertake the analysis, but we thought it was valuable, given that members of the committee come from across all areas of Victoria and might be able to identify with that and also because the public nature of submissions of this type might draw further public discussions from this and further analysis. So unfortunately, no, we do not have any analysis of that at this stage.

Michael GALEA: No worries. Nevertheless, it is very useful data. Attachment E – and apologies if you have already answered this – looks at mortgage and rental stress, basically those who are paying above 30 per cent of their income on mortgages or rent respectively. Are those current figures based on the year 2021 or are they more current?

Xavier RIMMER: They are 2021. I can come back to you and absolutely confirm that, because the footnote does not mention that, but my understanding is they are for 2021. There is no publicly available more recent data than that and definitely none at that sort of disaggregation.

Michael GALEA: Sure. Am I right to assume that is based off the census years that that data comes out?

Xavier RIMMER: Yes. I think I made the point earlier in response to another question. Obviously, being from 2021, there have since been significant housing pressures that are not factored into that data. If we were to see another dataset come out tomorrow, without knowing what it would be, it would be surprising not to see those numbers go up.

Michael GALEA: Yes. Thank you. And based on the measures that you have looked at, are there particular policy levers that you think are most effective for government to consider? I am cautious not to go into policy, but are there levers that you think have a particular impact or more impact than others?

Xavier RIMMER: We came at this from a statistical and perhaps an economic lens, and in that context the general consensus amongst the literature is that there are issues around supply and targeting the location of supply. We noticed that the growth in dwelling construction has not materially lagged growth in population, but what we are seeing is probably something of a search-matching mismatch. You know, are those properties being developed where people want? I know previous submissions that you have received have suggested that there are planning arrangements and so forth that could be done. That is certainly backed up in the broader literature discussing this – you know, targeting those middle-band suburbs that you were talking about before.

Other areas that the literature tends to focus on – there are some pretty inefficient charges and taxes that exist around this particularly. I know there is another committee that has looked into this, and land transfer duties have a pretty substantial impact. That is probably the extent to which we have looked into that, just observing what is in the literature. They are pretty sizeable levers, and they both tend to relate to either supply or effective supply. One of them is obviously generating supply, and the second one is generating it where people want it. The third, meaning land transfer duty – considering land transfer duty would probably bring more properties into the market on an annual basis and alleviate some friction between what properties sell for and what people can buy them for.

Michael GALEA: So, for want of a better word, those artificial supply barriers.

Xavier RIMMER: Yes, to some extent.

Michael GALEA: Thank you. My time is up. Thank you, Chair.

The CHAIR: Thank you, Michael. Dr Mansfield.

Sarah MANSFIELD: Thank you. Just touching on something you just said. You did point out – I saw this in the submission as well, and it was interesting – about supply generally tracking with population growth over time, and if anything it has slightly increased in recent years. You said that there is possibly a mismatch there. Are you able to unpick that in your analysis?

Xavier RIMMER: No, not in the data that we have access to. I am sure there are datasets that could be obtained, particularly by market participants, that would have really detailed, spatially arranged data on this that would allow you to do it. That is more conjecture than anything else on our part. It is reflective of the sort of supposition in the literature in this space, that there is that sort of barrier, that there is a gap between what people are looking for and what is available, but there is nothing that we can analytically point to at this stage.

Sarah MANSFIELD: Okay. And what effect does that have?

Xavier RIMMER: If people cannot obtain a property that they are looking for, they will either choose –

Sorry, if they cannot find something that is suited to their needs, they will have to choose something that is not. People often get locked into property ownership because of frictional barriers like stamp duty or land transfer duty, but also people are unable to relocate for efficient economic reasons – so, move to be closer to educational or employment arrangements – and that has an economic cost on those individuals but also it has an impact on the aggregate welfare of the state of Victoria. And it means it may also provide a slight barrier to people moving out of those areas when their particular need for them might come off to some degree – you know, where you might expect them to move into areas that need different services or different access to economic opportunities; that can also be dampened by those sorts of search-matching factors. And just on a pure efficiency basis of the economy, if you have people who work in one area and have to live a long way away, there are costs associated with that.

Sarah MANSFIELD: I guess in terms of the affordability of housing, how does it interact with that?

Xavier RIMMER: Look, it is a really interesting question. There are certainly factors that would push in multiple directions on that. You know, if you were to build a hundred houses in a given year and you built them in a distant suburb, they would probably be cheaper than similar properties that were built in a more middle-band or inner-suburbs area, so in terms of average affordability of housing that might actually make housing more affordable, but the cost that people bear from living in areas that are unsuitable to their economic opportunities can more than offset that. So it is quite complex.

Sarah MANSFIELD: Yes. The other thing: I do not know how much you look for correlations between different aspects of I guess policy settings or government decisions and trends in the housing market, but I did observe that there has been quite a sharp decline over the decades in the government's proportion or its contribution to housing stock through social housing, so declined quite sharply from 2000 over the last 20 years. Did you do any work looking at how that has impacted affordability or looking for correlations there?

Xavier RIMMER: We have not. I would note also that you can look at that public housing investment over a longer time period – I think it is, Ross, back to the 1970s?

Ross HUTCHINGS: 1970s, yes.

Xavier RIMMER: Yes, back to the 1970s. It was significantly higher than it is now. It is difficult to always capture all of the government's involvement in the housing sector because of how public investment in the housing sector is treated, depending on whether it is public housing or a public contribution to social or community housing. It is very hard to say what the counterfactual would be in that circumstance, and that would require a more complex modelling approach than I guess just the data analytic approach that we have taken. It would be a very interesting question to answer, but unfortunately we have not.

Sarah MANSFIELD: Okay. Thank you.

The CHAIR: Dr Bach.

Matthew BACH: Thank you. Mr Rimmer, you were talking before about some of the evidence that we have heard, especially today, about the potential need for greater diversity in middle-ring suburbs, and in that context we had a brief discussion about the Suburban Rail Loop, given that the government's plans there are for a much increased density around those stations. Now, the Parliamentary Budget Office carried out an analysis, a costing, of the Suburban Rail Loop. I think it was just last year, and it was $125 billion for the first two legs. Does the PBO stand by that analysis?

Xavier RIMMER: First of all, it was $125 billion for the capital component, constructing it. That does not include some other elements of it, so the part of the operational costs that were listed in that report would also be factored into the construction, and to be fair as well, part of that capital cost would have related to rolling stock and so forth. So that is the capital cost to get it completely up and running. Look, that is – yes, we stand by that analysis. I would note that if you look through that analysis, we undertook some sensitivity around the discount rates, so we used a central discount rate; I think it was 4 per cent. Is that correct, Ross?

Ross HUTCHINGS: I think so.

Xavier RIMMER: Yes. And I would note that at that discount rate it was I guess relatively borderline whether or not the project stood up on a net present value basis or on a cost-benefit ratio basis. There is obviously substantial uncertainty around estimating the costs of projects so large and so far out, but we stand by that as the best estimate that we could do and the best estimate that we have seen in the public domain at this stage.

Matthew BACH: All right. You said earlier, Mr Rimmer, that the PBO is independent. Is that right?

Xavier RIMMER: Yes.

Matthew BACH: Apolitical?

Xavier RIMMER: Yes.

Matthew BACH: Because there was interesting commentary at that time. That number, $125 billion, was labelled a tricky figure by the minister at the time, who is now the Premier. She went on to say –

Ryan BATCHELOR: Just on a point of order, what has this got to do with the terms of reference of this inquiry?

Matthew BACH: It is directly relevant to the terms of reference of the inquiry because we are talking about housing affordability. One of the government's key plans regarding housing affordability is a precincts plan related to the Suburban Rail Loop. If I may, she said – and I will give you the full quote from the Premier:

> … the PBO's nominal costings are over a 60-year period and, quite frankly, they're meaningless …

Ryan BATCHELOR: Chair, on a point of order, the PBO's work in non-housing-related matters does not have a bearing –

Matthew BACH: It is on housing – it is a precincts plan. That is what the government says: it is a precincts plan.

Ryan BATCHELOR: Then ask questions about the housing related to the precincts, not about the construction cost of the Suburban Rail Loop.

The CHAIR: Dr Bach –

Matthew BACH: Well, they are rather connected.

The CHAIR: just finish your question.

Matthew BACH: Are those numbers meaningless? That is a direct quote from the Premier, that your numbers are 'meaningless' and they are 'tricky'.

Michael GALEA: Chair, on the point of order, can you please give a ruling on the point of order?

The CHAIR: Yes. Finish the question, Dr Bach.

Matthew BACH: I have. The Premier has said that your numbers are tricky and meaningless. Is that correct, Sir?

Xavier RIMMER: I am happy to defend the work that the PBO has done. We were transparent in that piece of work about the nature of the work we have done. I do understand, however, that that kind of work is highly complex and when considering, as we did in that case, something akin to looking at a business case with costs and benefits factored in, it is not necessarily the same as a straight costing of an item. But I would also point to the fact that the approach we took in that piece was if not replicative then highly similar to the approach undertaken by KPMG, the consultancy that had undertaken work for the government on that project. Insofar as we estimated the cost to construct the project, we used the KPMG estimates of the benefits and we applied the standard financial and statistical arrangements to estimate the cost-to-benefit ratios and the aggregate costs.

Matthew BACH: Thank you very much.

Ryan BATCHELOR: People said the city loop was unaffordable too.

The CHAIR: Dr Heath.

Renee HEATH: Thank you. I have just got two questions, because I am aware it really restricts us when we are not allowed to ask about policy. You mentioned that the cost of home ownership has outpaced income. Is that the same with rentals?

Xavier RIMMER: Rents have grown faster than incomes as well, and that is reflected in the fact that we are seeing more rental properties passing that 30 per cent of income. They are obviously averages and somewhat aggregated across the market – you know, it is not true to say that every person in every walk of life is facing higher housing costs relative to their income, but generally speaking, yes.

Renee HEATH: I have just got one other question which I would like you to comment on. I notice that only 26 per cent of new home owners have been able to purchase a home without any other support. Let me just find where that was – I think it said 50 per cent had the first home owners grant – figure 11.

Xavier RIMMER: Yes, the utilisation of buyers assistance.

Renee HEATH: Yes. That is quite a staggering number, isn't it? Seventy-four per cent have used some sort of assistance.

Xavier RIMMER: Bear in mind that 'some sort of assistance' includes getting help from family members, so that has been reasonably broad, just as first home buyers grants have had reasonably strong uptake in all jurisdictions of Australia for quite some time.

Renee HEATH: Have the numbers always been that high?

Xavier RIMMER: The short answer is we do not know. The most recent year data we had was 2019–20, and that was all the data that we had at that time.

Renee HEATH: It is a hard one to measure.

Xavier RIMMER: Yes. You look at those numbers, and they feel like large numbers. But unfortunately we are not able to provide any relativity to that at this stage.

Renee HEATH: Thank you. Thanks, Chair.

The CHAIR: Thank you, Dr Heath. Thank you, Mr Rimmer and Mr Hutchings. As I said, there is quite a bit of latitude in this committee, as long as it is under your domain and it is in the public arena, and I will not be asking you about policy. But in your report one thing I want to look at is the impact on housing affordability. You mentioned land transfer duty makes both the buyer and seller of a property worse off. Just in your own words what do you mean by 'both are worse off'?

Xavier RIMMER: Land transfer duty in an economic sense is a tax on capital, but in a practical sense it is a tax on the transaction. It makes the purchaser of a home worse off because they have to pay land transfer duty, so they are worse off. The imposition of land transfer duty reduces the volume of transactions that occur in the market, and it reduces the price received by a seller because it has a depressive effect on what buyers can offer and it has a depressive effect on the volume of transactions, both of which draw down the price. In an absence of land transfer duty the price of a house would be higher. But it would be higher by less than 100 per cent of the value of stamp duty that is currently paid on those properties, and the total cost to purchase that higher priced house would be lower because you would buy it without stamp duty. Any increments in stamp duty between 100 per cent of what it is today and nothing would have some proportion of that effect. It is as it says: it reduces the price that people get for selling, but it also increases the total cost of purchasing. It effectively just drives a wedge between the price a seller receives and the price a buyer pays.

The CHAIR: One more question: could you comment in relation to bracket creep? Could you define what it is and how it impacts on housing affordability?

Xavier RIMMER: Sure. Land transfer duty is a sizable cost that people face when they go to purchase properties. It has something of a progressive schedule, and as with most taxes – I cannot think of a major tax that is an exception to this – those progressive rates are set based on nominally defined thresholds. If those thresholds do not change over time, as people's income or in this instance as the value of properties goes up, people move from one tax bracket to another. We have seen dramatic growth in the value of property prices over the last several decades, and I think 2008 was the last substantive adjustment to the tax rates in Victoria, so since 2008 strong growth in property prices and no change in the tax thresholds, which means for the average property people are now paying more land transfer duty than they were previously. The impact that has on affordability is it is a barrier to buying a property, and it is a cost that people incur that could otherwise be spent on servicing perhaps the mortgage that they take to buy a property. It is a cost you need to provision for to buy, so it can have an impact on people getting into the property market, because it is an additional saving they require.

The CHAIR: So from your information in the graph that you provided, by not adjusting since 2008, are those who are purchasing property now disadvantaged in any way?

Xavier RIMMER: They are not disadvantaged relative to their peers or relative to the market today. What it suggests is that the land transfer duty is on average more impactful on every transaction than it perhaps was in 2008 when the rates were last adjusted. They are not disadvantaged relative to people that they are going into the market at the same time as, but had they gone into the market earlier they would have paid potentially a lower average rate. It is not true for everyone, because the brackets are not dollar by dollar. Once a property moves into a bracket it takes a fair few years for it to go into the next one, so it does not affect everyone and every transaction. But in general on average it pushes up the burden of that tax.

The CHAIR: Thank you. I think that has brought us up to the panel's time. If there are no other questions, I will bring this panel session to a close. I again thank you very much, panellists, for the generous time you have given us today. You will receive a copy of the transcript for reviewing in about a week's time before it gets published on the website. We will take a break now for 15 minutes and be back at 3 o'clock.

Witnesses withdrew.